

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

October 17, 2011

The Investment Committee met on Monday, October 17, 2011, in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:00 a.m. and the following members were present:

Henry Jones, Vice Chair / Acting Chair
George Diehr, Chair
Michael Bilbrey
John Chiang
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Steve Coony
Priya Mathur (participated by phone)
Louis F. Moret
Tony Oliveira
Ronald Yank, represented by Greg Beatty

Terry McGuire represented John Chiang

To facilitate Ms. Mathur's phone participation, roll call votes were taken for action items.

Chair Diehr noted that Vice Chair Jones would be leading the meeting to gain Investment Committee chair experience.

### AGENDA ITEM 2 - APPROVAL OF SEPTEMBER 2011 MEETING MINUTES

On **MOTION** by Mr. Costigan, **SECONDED** and **CARRIED** that the September 14, 2011 Open Session minutes be approved as presented.

<u>YES</u>		<u>NO</u>	<b>ABSTAINED</b>
Beatty	Dunmoyer		
Bilbrey	Feckner		
Chiang	Jelincic		
Coony	Mathur		
Costigan	Moret		
Diehr	Oliveira		

### AGENDA ITEM 3 – GLOBAL EQUITY ANNUAL PROGRAM REVIEW

Eric Baggesen, Senior Investment Officer, and Dan Bienvenue, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Consulting, was available to respond to questions from the Committee.

Staff provided a strategic review of the Global Equity program, including recent accomplishments, historical performance, present activities, and future initiatives. Staff also requested one-year contract extensions for Global Equity external managers.

The Committee engaged in discussion regarding:

- Characteristics of benchmarks, capital allocation, performance
- Value added and expenses of internal and external management
- Technology development
- Functionalized operating model
- Legacy special programs
- Resources needed
- Strategies
- Possible future in-depth agenda item regarding external manager performance and how to seek added value

**MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve one-year contract extensions for the Global Equity external managers listed below.

<u>YES</u>		<u>NO</u>	<b>ABSTAINED</b>
Beatty	Dunmoyer		Jelincic
Bilbrey	Feckner		
Chiang	Jones		
Coony	Mathur		
Costigan	Moret		
Diehr	Oliveira		

Domestic Equity Managers

Boston Company First Quadrant J.P. Morgan

Pzena

Marvin & Palmer T. Rowe Price

**Emerging Markets Managers** 

Alliance Bernstein

DFA

Genesis Lazard Pictet **International Equity Managers** 

Arrowstreet
Baille Gifford

GMO Nomura Pyramis

**Emerging Manager Fund of Funds** 

FIS Group

Leading Edge Advisors

**Progress Investment Management** 

# AGENDA ITEM 4 – DELEGATION RESOLUTIONS RELEVANT TO THE ABSOLUTE RETURN STRATEGIES (ARS) PROGRAM

Joseph Dear, Chief Investment Officer, and Craig Dandurand, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Committee.

Staff reported that the ARS Program has been separated from Global Equity and the ARS personnel now report directly to the Chief Investment Officer. Therefore, the Global Equity delegation has been revised and a new ARS Program delegation has been prepared to reflect the transfer of authority. Ministerial changes to update the Global Equity delegation were also made.

On **MOTION** by Mr. Jelincic, **SECONDED** and **CARRIED** to approve revision of the Global Equity Professional Staff Delegation Resolution and adoption of the ARS Professional Staff Delegation Resolution.

<u>YES</u>		<u>NO</u>	<u>ABSTAINED</u>
Beatty	Dunmoyer	<del></del>	
Bilbrey	Feckner		
Chiang	Jelincic		
Coony	Mathur		
Costigan	Moret		
Diehr	Oliveira		

## AGENDA ITEM 5 – CONSULTANT ANNUAL REVIEW OF THE INTERNAL ABSOLUTE RETURN STRATEGIES PROGRAM

Michael Schlachter, Wilshire Consulting, presented the item. Joseph Dear, Chief Investment Officer, and Craig Dandurand, Portfolio Manager, were available to respond to questions from the Committee.

As part of Wilshire's contractual requirement to periodically review all of the internal asset management functions, Wilshire conducted on-site review of the internal Absolute Return Strategies (ARS) Program team's personnel, investment process, and resources. The report findings were presented.

As noted above, the ARS Program has been separated from Global Equity and the ARS personnel now report directly to the Chief Investment Officer. Wilshire recommended that until a Senior Portfolio Manager or Senior Investment Officer for ARS is retained, that the program and staff be placed under the direct oversight of the Senior Investment Officer for Global Equity.

Joseph Dear complimented Wilshire on a thorough report and presented rationale for separation of ARS from Global Equity and stated the intent to replace the head of the program. In the interim, he will oversee the program and noted that there will be an indepth discussion on the program in March or April 2012, followed by discussion of policy issues in May or June 2012.

The Committee accepted the annual report.

### AGENDA ITEM 6 – DISCUSSION ON REAL ASSETS PROFESSIONAL STAFF DELEGATION RESOLUTION RELEVANT TO INFRASTRUCTURE

At the request of the Chair, the Delegation Resolution for Real Assets, including the Infrastructure Program, was presented for the Committee's review.

Joseph Dear, Chief Investment Officer; Ted Eliopoulos, Chief Investment Officer; and Randall Mullan, Senior Portfolio Manager, were available to respond to questions from the Committee.

Aspects of the Delegation pertaining to the Infrastructure Program were approved by the Investment Committee at its August 2011 meeting. Staff believes that the Delegation provides sufficient and necessary authority for execution of the Infrastructure Program in accordance with the Program's Strategic Plan.

There was discussion regarding the comfort level of the Committee members with staff delegations, the Chair's request for additional Committee education, and possible methods to fulfill the request.

Regarding the Infrastructure Program, staff proposes to discuss investment activity with the Committee in Closed Session on a quarterly basis

### AGENDA ITEM 7 – INFRASTRUCTURE INVESTMENT IN CALIFORNIA – STATE AND LOCAL GOVERNMENT OUTREACH PLAN

Ted Eliopoulos, Chief Investment Officer; Randall Mullan, Senior Portfolio Manager; and Laurie Weir, Portfolio Manager, presented the item.

In April 2011, the Investment Committee approved the Infrastructure Program strategy for approximately \$5 billion of investment capital. In September 2011, the Investment Committee directed staff, among other things, to:

- Target investment of up to \$800 million in California infrastructure over a threeyear period; and
- Develop a plan for outreach to state and local governments to explore what role CalPERS and other U.S. pension systems can play to facilitate infrastructure investment in California.

Per the Committee's request, staff presented an outreach plan including identification of staff and resource needs. Staff highlighted activities to implement the following outreach efforts over the next six months:

- 1. Coordination and Policy Process multi-party, roundtable workshop meetings and open engagement on pertinent policy and legislative initiatives
- 2. Investment Pipeline Process one-on-one, private meetings to explore potential opportunities for investment by CalPERS

Staff also identified personnel and resource needs to implement the outreach effort.

The Committee expressed support for the plan, provided input, and suggested outreach contacts such as the private sector, California Debt and Investment Advisory Commission, the U.S. Treasury, and the Federal Reserve Board.

#### **AGENDA ITEM 8 – PROGRAM UPDATES**

a. Corporate Governance Program – Proxy Access

Bill McGrew, Portfolio Manager, provided an update regarding the U.S. Court of Appeals for the District of Columbia Circuit overturn of the SEC rule to allow shareholders to have access to a corporate proxy statement to put forward candidates for a board. In September, CalPERS joined a large number of institutional investors representing \$2 trillion in assets under management to ask the SEC to issue new regulations on proxy access. The SEC Chairman has given, in principle, a commitment to do this.

Staff continues to explore all options regarding shareowner proposal rules and will report back to the Committee as the proxy season unfolds.

The Committee recessed from 12:10 to 1:05 p.m.

b. Special Review Implementation Plan – Investment Office

Janine Guillot, Chief Operating Investment Officer, reported that going forward the Investment Office will assume responsibility for updating the implementation status of the investment-related special review recommendations. The October 2011 update was presented. The Legal Office will continue to provide updates on all other matters.

There were no items to report for the following programs:

- c. Growth Public Equity
- d. Growth Private Equity
- e. Income (Global Fixed Income and Liquidity)
- f. Real Assets (Real Estate, Infrastructure, Forestland)
- g. Inflation Assets (Commodities, ILB)
- h. Absolute Return Strategies Program
- i. Affiliate Investment Programs

#### AGENDA ITEM 9 – ACTIVITY REPORTS

a. Total Fund Monthly Update

Joseph Dear, Chief Investment Officer, referred the Committee to the Policy Violations section and noted that there were a number of violations in August due to market volatility and that the numbers will be much lower in September.

Vice Chair Jones reported that a list of "suggested questions for directors to consider asking executives in a post-Lehman world" was distributed at a recent CII Conference and he asked that staff determine how information relevant to the questions could be incorporated into staff reports.

b. The Committee accepted the Investment Office Assignment Matrix

### AGENDA ITEM 10 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. Draft agenda for November 14, 2011
- b. Rolling Annual Agenda Item Calendar

### AGENDA ITEM 11 – PUBLIC COMMENT

Comments were received from the following:

- Christopher Vink, Great Pacific Securities, related his positive experience as a U.S. Active Broker for CalPERS.
- The following interested parties commented regarding proposed revision of the Global Principles of Accountable Corporate Governance relevant to disclosure of charitable and political contributions:
  - Andrew Pincus, Mayer Brown LLP representing the U.S. Chamber of Commerce, opposed the revision
  - > Jennifer Barrera, California Chamber of Commerce, opposed the revision
  - > Dennak Murphy, SEIU, supported the revision
- Tim Boyd, AIDS Healthcare Foundation, commented on AIDS drug pricing issues. The Chair directed staff to follow-up with Mr. Boyd regarding possible CalPERS engagement.

The meeting was adjourned at 1:35 p.m.

The next Investment Committee meeting is scheduled for November 14, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer